

# LYNCHBURG CITY COUNCIL

## Agenda Item Summary

MEETING DATE: **August 13, 2002**

AGENDA ITEM NO.: **11**

CONSENT: **X**

REGULAR:

CLOSED SESSION:

ACTION: **X**

INFORMATION:

ITEM TITLE: **Amendment to the City Code Regarding the Internal Audit Division**

### RECOMMENDATION:

Revise the City Code Sections 2-129.3, 2-129.5, 2-129.6, 2-129.7, 2-129.11, 2-129.12, 2-129.13 and 2-129.18 to include consulting services as a function of the Internal Audit division.

### SUMMARY:

The proposed amendment would allow Internal Audit to perform projects and consulting services in addition to traditional audit duties. It is believed that expanding the scope of services provided by Internal Audit in this manner will provide greater value to the organization.

PRIOR ACTION(S): None

FISCAL IMPACT: None

CONTACT(S): Carol J. Bibb, Internal Audit Director

ATTACHMENT(S): Revised Code section.

REVIEWED BY: lkp

AN ORDINANCE TO AMEND AND REENACT SECTIONS 2-129.3, 2-129.5, 2-129.6, 2-129.7, 2-129.11, 2-129.12, 2-129.13 AND 2-129.18 OF THE CODE OF THE CITY OF LYNCHBURG, RELATING TO THE INTERNAL AUDITOR AND AUDIT DIVISION.

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BE IT ORDAINED BY THE COUNCIL OF THE CITY OF LYNCHBURG:

1. That Sections 2-129.3, 2-129.5, 2-129.6, 2-129.7, 2-129.11, 2-129.12, 2-129.13 and 2-129.18 of the Code of the City of Lynchburg, relating to the Internal Auditor and Audit Division, be, and the same is hereby amended and reenacted as follows:

Sec. 2-129.3. ~~Government auditing standards~~ Standards.

The auditor and the auditor's office shall adhere to ~~government auditing standards~~ applicable standards issued by the Institute of Internal Auditors (IIA) and the United States General Accounting Office (GAO) in conducting its work and shall be considered independent as defined by those standards.

Sec. 2-129.5. Responsibilities and scope of audits.

(a) The auditor shall conduct his/her audit work in accordance with government auditing standards applicable to financial and performance audits and IIA standards applicable to process reviews and consulting engagements.

(b) The auditor shall not conduct nor supervise an audit of an activity for which he/she was responsible or for which he/she was employed during the preceding two (2) years.

(c) The auditor shall have authority to conduct performance and financial audits of all departments, offices, boards, activities and agencies of the city in order to independently determine whether:

(1) activities and programs being implemented have been authorized by the city, state law or applicable federal law or regulations and are being conducted in a manner consistent with the intended objectives;

(2) the audited entity is acquiring, protecting, and using its resources (such as personnel, property and space) economically and efficiently, and the effectiveness of organizations, programs, activities, functions or policies, and the extent to which desired results or benefits are being achieved;

(3) financial and other reports are being provided that disclose fairly, accurately and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, and that is necessary to establish a proper basis for evaluating the results of programs and activities including the collection of, accounting for and depositing of revenues and other resources;

(4) activities or programs efficiently and effectively serve the purpose intended by the city, state law or applicable federal law or regulations and are being conducted and funds expended in compliance with applicable laws;

(5) resources, including funds, property and personnel are adequately safeguarded, controlled and are being used efficiently and effectively, and in a manner consistent with the objectives intended by the city or enabling ordinance, statute or regulation;

(6) management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls; and

(7) indications of fraud, abuse or illegal acts are present.

(d) Process reviews and consulting engagements will be performed as negotiated with the appropriate city official(s) requesting the review.

#### Sec. 2-129.6. Audit schedule.

(a) At the beginning of each fiscal year, the auditor shall submit an annual work plan to the audit division for review and comment. The schedule shall include the departments, offices, boards, activities, subcontractors and agencies subject to audit, process reviews or consulting engagements for the period. This schedule may be amended during the period after review with the audit division. Additionally, the auditor may spontaneously initiate and conduct any other audit deemed necessary.

(b) In the selection of audit areas, the determination of audit scope and the timing of audit work, the auditor should consult with federal and state auditors and external auditors so that the desirable audit coverage is provided and audit effort is properly coordinated.

#### Sec. 2-129.7. Special audits.

The audit division may request the auditor to perform special audits that are not included in the annual audit schedule. After consultation with and approval of the audit division, a special audit or consulting engagement requested by the city manager may become an amendment to the annual work plan.

#### Sec. 2-129.11. Agency response.

A final draft of the audit report will be forwarded to the ~~audited agency~~ appropriate city official(s) and the audit division for review and comment regarding ~~factual~~ content before it is finalized and released. ~~The agency~~ city official(s) must respond in writing specifying agreement with ~~audit~~ findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The response must be forwarded to the auditor within thirty (30) days. ~~The auditor will include the full text of the agency's response in the report.~~ If no response is received, the auditor will note that fact in the transmittal letter and will release the audit report. In the case of contracted audits, audits may be released without inclusion of a response. Any subsequent responses shall be distributed to those who received the audit report (to the organization's audit division).

Sec. 2-129.12. Audit reports.

(a) Each audit, examination, investigation, survey, and review will result in a written report. The report shall be available for public examination.

(b) The auditor shall submit each audit report to the audit division and shall retain a copy in his/her office as a permanent record.

Sec. 2-129.13. Report of irregularities.

If during an audit or other review, the auditor becomes aware of abuse or illegal acts or indications of such acts that could affect the city, the auditor shall report the irregularities to the audit division and the city manager. If the city manager is believed to be a party to abuse or illegal acts, the auditor shall report the acts directly to the city council. If it appears that the irregularity is criminal in nature, the auditor shall immediately notify the commonwealth's attorney (when appropriate) in addition to those officials previously cited.

Sec. 2-129.18. Responsibilities of the audit division.

There is hereby established in and for the city an audit division. The audit division shall have general supervision of the internal auditor and shall perform the following duties:

- (a) recommend selection of the external auditor;
- (b) perform oversight of the external audit coverage including the development of the audit engagement letter, estimated fees, coordination with internal auditor, review of significant operational or reporting issues affecting the financial statements which were discussed by management and the external auditor, review of auditor performance, and meeting with external auditor to discuss pertinent matters;
- (c) select the internal auditor subject to council approval;
- (d) review plans and objectives of the internal auditor;
- (e) review results of internal audits and other engagements;
- (f) request for audit projects;
- (g) review progress toward resolving previous findings and recommendations;
- (h) perform an annual performance evaluation of the internal auditor.

2. That this ordinance shall become effective on its passage.

Adopted:

Certified:

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Clerk of Council

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